

Significant Accounting Policies:

1. **Basis of Presentation of Consolidated Financial Statements**
The company's consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles. See Note 2 of Notes to consolidated financial statements on page 16.
2. **Inventories**
Finished goods and work in process are stated at the lower of cost (average) or market. Raw materials are stated at cost, principally on a first-in, first-out basis, not in excess of current replacement cost.
3. **Marketable Securities**
The company accounts for debt and equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No.115, "Accounting for Certain Investments in Debt and Equity Securities."
4. **Property, Plant and Equipment, and Depreciation**
Property, plant and equipment is stated at cost. Depreciation is computed primarily using the declining balance method.
5. **Leases**
The company accounts for leases in accordance with SFAS No. 13, "Accounting for Leases."
6. **Income Taxes**
Income taxes are accounted for under the asset and liability method. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the fiscal year that includes the enactment date.
7. **Retirement and Severance Benefits**
The company and most of its domestic subsidiaries maintain defined benefit pension plans such as point-based benefits system and cash balance pension plans. Several of its domestic subsidiaries have lump-sum payment plans, while several overseas subsidiaries also maintain defined benefit pension plans.
The company accounts for retirement and severance benefits in accordance with SFAS No. 87, "Employer's Accounting for Pensions." The transfer of the substitutional portion of Japanese Welfare Pension Insurance is accounted for in accordance with the Emerging Issues Task Force (EITF) Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities."
8. **Derivative Financial Instruments**
The company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."